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Supreme Court of the United States

CUOZZO SPEED TECHNOLOGIES, LLC,
Petitioner,

v.

MICHELLE K. LEE, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR, PATENT AND TRADEMARK OFFICE.
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF OF LAW PROFESSORS GREGORY DOLIN, IRINA D. MANTA, ADAM MOSSOFF, KRISTEN JAKOBSEN OSENGA, AND MARK F. SCHULTZ AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

Amici curiae are intellectual property law professors[1] who teach and write about aspects of patent law including the construction of patent claims and *inter partes* review ("IPR") of patents before the United States Patent and Trademark Office ("PTO"). *Amici* have an interest in ensuring that *inter partes* review is implemented in a manner consistent with the prescriptions of Congress and this Court, while providing a sound patent policy. As indicated by the citations throughout this brief, some *amici* have authored articles in this field. *Amici* are:

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[1] Pursuant to Rule 37.6 of the Rules of the Supreme Court, *amici* state that no counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or their counsel made a monetary contribution to its preparation or submission. The parties have either filed blanket waivers with the Court or have expressly consented to the filing of this brief.

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INTRODUCTION

The scope of a patent is defined by its claims, and in particular, by how the language in those claims is interpreted. Under current Federal Circuit case law, fundamentally different claim construction principles are applied to the same claim terms at different points in a patent's life. During the examination of a patent application, before the PTO, an examiner will interpret the submitted claim language using the broadest reasonable interpretation. *In re Zletz*, 893 F.2d 319, 321 (Fed. Cir. 1989) ("During patent examination the pending claims must be interpreted as broadly as their terms reasonably allow."). Doing so allows an examiner to test the patentability of a claim under any reasonable interpretation. *Id.* Generally speaking, the more broadly claim terms are interpreted, the more prior art available to reject the claim. In response to an examiner's rejections, applicants have the opportunity to amend their claims or to make arguments to explain the intended meaning of the claim language used to describe the invention to thereby narrow the interpretation given those words. By amending the claims to more precisely describe the subject matter sought to be claimed, the applicant is able to respond to—

and rein in—the "broadest reasonable interpretation" available to the examiner to more precisely identify the scope of his or her invention. This process shapes the scope of the claims and informs a court's later construction of claim terms. Once issued, the scope of the claims is fixed, and a patent owner's property right is defined. *Zletz*, 893 F.2d at 322 ("The issued claims are the measure of the protected right.").

During subsequent litigation of issued patents, a court applies a different standard for claim construction. A district court must determine what the claim terms would have meant to a person of ordinary skill in the art at the time of the invention. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1313 (Fed. Cir. 2005) (en banc). This interpretation is *not* the *broadest* reasonable interpretation that a person of ordinary skill in the art might possibly arrive at; it is the *most* reasonable interpretation of the claims. Such an interpretation is guided by briefing and arguments of the adversaries to the litigation. Critically, during litigation, the patent owner has no opportunity to amend the claims to clarify the intended meaning and scope of the words. *See, e.g., In re Etter*, 756 F.2d 852, 859 (Fed. Cir. 1985) ("In litigation, where a patentee cannot amend his claims, or add new claims, the presumption, and the rule of claim construction (claims shall be construed to save them if possible), have important roles to play."). Rather, it is recognized that the scope of the claims is fixed. The court's claim construction then is used to determine whether the claim has been infringed, and whether the claim is invalid. A claim in litigation must be given the same interpretation for both validity and infringement purposes. *See, e.g., In*

re Cuozzo Speed Techs., LLC, 793 F.3d 1297, 1305 (Fed. Cir. 2015).

Prior to the creation of IPRs, other post-grant review mechanisms existed, namely *ex parte* and *inter partes* reexamination. These proceedings were aptly called *reexamination* in that they were very much like the original examination proceeding—both in the broad right to amend and in the PTO's application of the broadest reasonable interpretation.[2] Pub. L. No. 96-517, § 304, 94 Stat. 3015, 3015 (1980) (codified at 35 U.S.C. § 304 (2012)); *PPC Broadband, Inc. v. Corning Optical Communs. RF, LLC*, 2015-1361, 2015-1366, 2015-1368, 2015-1369, 2016 U.S. App. LEXIS 3022 at *6-7 (Fed. Cir. Feb. 22, 2016) ("Examinations and reexaminations are not adjudicatory."). A patent owner was free to amend claims and even add new, additional claims. *Cordis Corp. v. Medtronic Ave, Inc.*, 511 F.3d 1157, 1184 (Fed. Cir.

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[2] The application of the broadest reasonable interpretation in *inter partes* reexamination was not necessarily the correct standard for the PTO to have applied from a policy perspective, and its use in reexaminations was never approved by this Court. One criticism is that the examiners did not need to use such an expedient where a third party was directly pointing the examiner to the "best" prior art and strongly advocating for unpatentability of the claims. Moreover, under certain circumstances, the broadest reasonable interpretation was not the standard used. Specifically, when a patent involved in a reexamination was expired and the right to amend extinguished the PTO "construe[d] the claims in accordance with the claim construction standard set forth in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005)." *Facebook, Inc. v. Pragmatus AV, LLC*, 582 Fed. Appx. 864, 866 (Fed. Cir. 2014). In any event, *inter partes* reexamination, unlike IPR was applicable only to patents issued after the creation of that procedure. 37 C.F.R. § 1.913 (2014) (implementing Pub. L. No. 106-113, § 4608).

2008) ("Section 305 permits the owner of a patent that is in reexamination 'to propose any amendment to his patent and a new claim or claims thereto.'"). *Inter partes* reexamination provided the requester with an opportunity to participate in the examination, including filing responses to any filings made by the patent owner. *See* 35 U.S.C. § 314 (2010); 37 C.F.R. § 1.937 Both *ex parte* and *inter partes* reexamination were considered "unsuccessful" by those who wanted to "clear the field" of patents. *See* Gregory Dolin & Irina D. Manta, *Taking Patents*, 72 Wash. & Lee L. Rev. at 15-18 (forthcoming 2016) hereinafter ("*Taking Patents*"), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2652526. *Inter partes* reexaminations were abolished by the Leahy-Smith America Invents Act ("AIA"). *See* Pub. L. No. 112-29, § 6, 125 Stat. 284, 299-313 (2011).

In 2011, the AIA enacted a number of significant changes to the post-grant review system. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). Relevant here, the AIA established a new procedure—IPR—by which a third party may challenge the validity of an issued patent. This proceeding has been described as "a new adjudicatory proceeding , whereby a newly formed Patent Trial and Appeal Board (PTAB) serves as a surrogate for district court litigation of patent validity." *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268 (Fed. Cir. 2015) (Newman, J., dissenting). A petitioner in an IPR can ask the PTO to cancel one or more claims of a challenged patent "only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications." 35 U.S.C. § 311(b). IPRs provide for discovery

including technical expert depositions, 35 U.S.C. § 316(a)(5)(A), and provide "the right to an oral hearing," 35 U.S.C. § 316(a)(10), which has been implemented by PTO regulation as a "trial." *See* 37 C.F.R. § 42 ("Trial Practice Before the Patent Trial and Appeal Board").

Unlike an original examination of a patent application and previous post-grant proceedings such as *ex parte* and *inter partes* reexamination, IPRs provide no "right" to amend claims. During IPRs, a patent owner is permitted "1 motion to amend the patent." 35 U.S.C. § 316(d). In practice, such motions are effectively never granted. As of January 1, 2016, approximately 95 percent of motions to amend have been denied. *Synopsys Inc. v. Mentor Graphics*, 2014-1516, 2014-1530, 2016 U.S. App. LEXIS 2250 at 25 (Fed. Cir. Feb. 10, 2016) (citing Daniel F Klodowski and David Seastrunk, *Claim and Case Disposition, AIA BLOG*, http://www.aiablog.com/claim-and-case-disposition/ (visited Feb. 5, 2016) (reporting that 446 (94.49%) substitute claims have been denied, 26 (5.51%) substitute claims have been granted)).

While IPRs have been described as a "surrogate" for litigation of invalidity challenges in the district court, IPRs differ in fundamental ways. First, IPR changes the burden of proof for showing invalidity under Sections 102 and 103. In the district courts, invalidity must be proven by clear and convincing evidence. *Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. 91 (2011). In IPRs, "the petitioner shall have the burden of proving a proposition of unpatentability by *a preponderance of the evidence*." 35 U.S.C. § 316(e) (emphasis added). Thus, a much lower burden of proof governs an invalidity challenge

in an IPR than in an action in federal district court. Second, and relatedly, IPR removes the presumption of validity. Under 35 U.S.C. § 282(a), patents are presumed to be valid in district court proceedings. There is no such presumption of validity in IPRs. Third, IPRs only involve the question of invalidity, without any analysis of infringement. In contrast, district courts decide both validity and infringement, applying the same claim construction to both questions. Lastly, the PTO applies a broader claim construction standard to the claim language than district courts. The PTO promulgated a regulation that provides "[a] claim in an unexpired patent shall be given its *broadest reasonable construction* in light of the specification of the patent in which it appears," 37 C.F.R. § 42.100(b) (emphasis added). On the other hand, a district court gives claim language its "ordinary and customary meaning," which is "the meaning that the term would have to a person of ordinary skill in the art in question at the time of the invention." *Phillips*, 415 F.3d at 1313 (Fed. Cir. 2005). This difference is of paramount importance and is challenged here.

The results demonstrate that these proceedings (IPRs and district court litigation of invalidity) are no substitute for each other. Studies have shown that the rate of invalidation in judicial proceedings is just under 50%.[3] Yet, that includes *all* causes of

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[3] *See* John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205-206 (1998) (reporting that about 48% of all litigated claims are found to be invalid); *see also* Mark A. Lemley, *An Empirical Study of the Twenty-Year Patent Term*, 22 AIPLA Q.J. 369, 420 (1994) (reporting an invalidity rate of about 44%); Robert P Merges, *Commercial Success and Patent Standards: Economic*

invalidation, and not just invalidation for lack of novelty or obviousness. Invalidation for these two causes is limited to about 33% of litigated patents. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 209 (1998). In contrast, the rate of invalidation in IPR proceedings exceeds 75% of all claims where a petition is granted. Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881, 926 (2015). In sum, a much higher percentage of patent claims are being invalidated in IPRs. This very high rate of IPR invalidation occurs in large measure because of the application of broader claim construction principles, coupled with the inability of the patent owner to modify the claims to eliminate the artificially broad construction applied by the PTO in IPRs. The different claim construction rules used in IPRs have allowed accused infringers to offer a claim construction in IPR that is far broader than the claim construction they offer in an infringement action in federal district court.[4] The result is that patent

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Perspectives on Innovation, 76 CAL. L. REV. 803, 822 (1988) (same).

[4] There is virtually no consequence to the accused infringer taking inconsistent claim construction positions in IPRs and in district court litigation, given the fact that these adjudicatory proceedings use different claim construction principles. Petitioners in IPRs are not bound by their inconsistent positions in related litigation because of these differing standards. *See, e.g., Cellular Communs. Equip. LLC v. HTC Corp.*, Case No. 6:13-cv-507, 2015 U.S. Dist. LEXIS 70135, at *21-22 (E.D. Tex. June 1, 2015) ("To whatever extent the petitioners in the IPR proceedings proposed constructions broader than what Defendants propose in the present litigation, the difference may be accounted for by the difference in claim construction standards between the two proceedings.").

owners are required to defend their patents in IPRs using an artificial claim construction that is broader than that which is applied in litigation.

This case presents an opportunity to bring the claim construction used in IPRs into line with other adjudicatory proceedings.

SUMMARY OF ARGUMENT

While Congress purportedly created IPRs as a surrogate for district court litigation of validity questions, applying two different claim constructions in the two separate adjudicatory proceedings results in different answers to the same question of patent validity. The broadest reasonable interpretation—an expedient used by examiners in examination—has no place in an adjudicatory proceeding such as an IPR, wherein the PTO is being asked to resolve a dispute between two adverse parties, who are likely also involved in a separate litigation to resolve the same dispute in federal district court under a different standard for determining the boundary of the property right. Rather, in such a setting, the PTO should apply the proper interpretation of claim language, which is the standard of claim construction applicable in other adjudications, *i.e.*, district court litigation. Moreover, this claim construction standard most closely aligns with the purported intent of the AIA to provide an alternative adjudication proceeding as opposed to another examination proceeding. The only reason to apply the different broadest reasonable interpretation standard to IPRs is an effort to diminish or eliminate the patent property right by increasing the likelihood that the issued patent claims will be invalidated entirely.

"A patentee discloses his invention to the public in exchange for a limited monopoly, as defined by the claims of the patent. To invalidate those claims using a different standard than one that considers the true meaning and scope of a claim would violate the bargain the patentee struck with the public." *In re Cuozzo*, 793 F.3d at 1301. Not only would it violate that bargain, but using a different standard to invalidate claims, namely the broadest reasonable interpretation, constitutes a taking of private property without any compensation.

Both the Patent Act and this Court's jurisprudence classify patents as property. 35 U.S.C. § 261 (2012); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U. S. 722, 730 (2002). The recent *Horne* decision further indicated that the Takings Clause of the Fifth Amendment applies to patents. *Horne v. Dep't of Agric.*, 135 S. Ct. 2419, 2426 (2015). While *Horne* did not discuss the circumstances under which takings would apply to patents, as that was not the question presented, under this Court's precedent in *Loretto*, it would constitute a *per se* physical taking because the PTO's use of the broadest reasonable interpretation in IPRs alters the settled boundaries of the patent claims. *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 435 (1982). In the alternative, under this Court's precedent in *Penn Central*, it would constitute an economic, regulatory taking as the application of the broadest reasonable interpretation to invalidate claims constitutes a substantial deprivation of a patent's value, especially in individual cases wherein patent claims are cancelled under the PTO's application of the broadest reasonable interpretation in IPRs. *Penn Central Transportation Co. v. New York City*, 438 U.S. 104,

124 (1978); *E. Enterprises v. Apfel*, 524 U.S. 498, 523-24 (1998) (plurality opinion) (quoting *Kaiser Aetna v. United States*, 444 U.S. 164 (1979)).

In any event, under the doctrine of constitutional avoidance, *Ashwander v. TVA*, 297 U.S. 288, 345-48 (Brandeis, J., concurring) (1936), this Court can avoid potentially difficult constitutional issues that result from the PTO's regulation adopting the broadest reasonable interpretation by finding that the AIA contemplates the implementation of a claim construction standard that is used in other adjudicatory proceedings, *i.e.*, district court litigation.

ARGUMENT

I. APPLICATION OF THE BROADEST REASONABLE INTERPRETATION IN *INTER PARTES* REVIEW

A. Pre-AIA Claim Interpretation

The broadest reasonable interpretation is applied in an original prosecution of a patent as an expedient. *Zletz*, 893 F.2d at 322 (justifying the application of the broadest reasonable interpretation during original prosecution because "[o]nly in this way can uncertainties of claim scope be removed, as much as possible, during the administrative process."). Applying such a construction allows an examiner to cast a wide net for prior art and to expansively apply the prior art found. *Id.* ("The reason is simply that during patent prosecution when claims can be amended, ambiguities should be recognized, scope and breadth of language explored, and clarification imposed."). Examination is blind to infringement; that question is never considered

during examination proceedings. Accordingly, an examiner applies the broadest construction uninhibited by any concern that his or her interpretation of the claim language would apply in subsequent infringement litigation. During the original prosecution, application of the broadest reasonable interpretation is counter-balanced by a right to amend claims to more precisely define the claimed invention. *In re Yamamoto,* 740 F.2d 1569, 1571 (Fed. Cir. 1984) (explaining "[t]he PTO broadly interprets claims *during examination* of a patent application since the applicant may 'amend his claims to obtain protection commensurate with his actual contribution to the art. Applicants' interests are not impaired since they are not foreclosed from obtaining appropriate coverage for their invention with express claim language.'") (emphasis added).[5]

During litigation, however, courts apply the ordinary and customary meaning of the claims as understood by a person of ordinary skill in the art at the time of the invention, when viewed through the prism of the patent specification and the prosecution record (hereinafter this construction methodology will be referred to as the "proper interpretation" as it best reflects the actual scope of the claims). *See, e.g., Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 841 (2015) ("[I]f a district court resolves a dispute between experts and makes a factual finding that, in general, a certain term of art had a particu-

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[5] While this is true during an original examination, this does not hold true during any subsequent reexamination or post grant review proceedings, as amending claims will give rise to intervening rights. *See, e.g., Marine Polymer Techs., Inc. v. HemCon, Inc.*, 672 F.3d 1350, 1361–62 (Fed. Cir. 2012).

lar meaning to a person of ordinary skill in the art at the time of the invention, the district court must then conduct a legal analysis: whether a skilled artisan would ascribe that same meaning to that term in the context of the specific patent claim under review "); *see also Phillips v. AWH Corp.*, 415 F.3d at 1313 ("The inquiry into how a person of ordinary skill in the art understands a claim term provides an objective baseline from which to begin claim interpretation."). This interpretation best reflects the proper scope of a patent owner's property.

Prior to the enactment of the AIA, post grant proceedings such as *ex parte* and *inter partes* reexamination existed. These proceedings were treated as examinations. While the PTO may have applied the broadest reasonable interpretation in those proceedings, it was coupled with a broad right to amend. *In re Yamamoto*, 740 F.2d at 1572 ("Appellant therefore had an opportunity during reexamination in the PTO to amend his claims to correspond with his contribution to the art."). *Amici*, however, do not suggest that the application of the broadest reasonable interpretation in *inter partes* reexamination was proper. Where a third party is seeking to invalidate a patent claim and that third party is permitted full participation in the PTO proceeding to do so, the fundamental nature of the proceeding is changed such that the rationale for using the broadest reasonable interpretation (*i.e.*, an expedient for examiners to test the boundaries of the claims) simply vanishes. This is especially true where the proceeding at issue is now an adjudication instead of an examination, as in IPRs.

B. Post-AIA Claim Interpretation

Congress was clear that IPRs are not merely a new post-grant *examination* proceeding. The House report accompanying the bill stated, "[t]he Act converts *inter partes* reexamination from an examinational to an adjudicative proceeding." H.R. Rep. No. 112–98, pt. 1, at 46. The PTO itself recognized this change stating "[a]n *inter partes* review is neither a patent examination nor a patent reexamination. Rather, it is a trial, adjudicatory in nature and constitutes litigation." *Google, Inc. v. Jongerius Panoramic Techs.*, LLC, IPR2013-00191, Paper No. 50, at 4 (P.T.A.B. Feb. 13, 2014). While an original prosecution is a non-adversarial proceeding designed to precisely capture the novel, non-obvious aspects of an invention, IPRs are an adversarial proceeding serving as a tool for third parties—usually accused infringers[6]—to make invalidity challenges against issued claims.

In the vast majority of cases, IPR petitions are submitted by a defendant in response to the filing of a patent infringement lawsuit on the same patent.[7] For several reasons, IPRs are popular with companies facing infringement suits. First, the claim language is interpreted more broadly by the PTO

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[6] Or other "rent seekers." *See Dubious Patent Reform*, 56 B.C. L. REV. at 931-47.

[7] As of June 30, 2015, 83.4% of *inter partes* reviews concerned patents involved in concurrent litigation. *Just the Stats: Percentage of IPRs with a Concurrent Litigation*, FITZPATRICK: POST GRANT HQ (June 30, 2015), http://www.postgranthq.com/statistics/scatter-plot-of-claims-found-unpatentable-in-final-decisions-from-fchs-data/.

than by a court.[8] As explained *supra*, the PTO's regulation adopts the broadest reasonable interpretation, thereby returning claims to their pre-issuance state.

Second, there is no trade-off on patent scope because infringement is not at issue before the PTO. Usually claim language is construed the same for both validity and infringement. *In re Cuozzo Speed*, 793 F.3d at 1305 (Fed. Cir. 2015) ("Claims of issued patents are construed the same way for validity as for infringement; no precedent, no practical reality, authorizes or tolerates a broader construction for one than the other."). This ensures a level playing field: if a patentee seeks an expansive interpretation of its claims in its infringement case, it does so at the risk of that interpretation capturing the prior art and thereby invalidating its patent. Conversely, an alleged infringer seeking a narrow construction to avoid infringement will concurrently weaken its invalidity arguments by excluding certain prior art. By creating an adjudicative process that only addresses validity, the AIA provides accused infringers with the benefits of both worlds. The broad claim construction positions advocated by a petitioner in an IPR are *only* applied to the petitioner's invalidity challenges. Accordingly, a petitioner is free to argue for the broadest of constructions without any concern about what such a broad construction would do to his

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[8] *See, e.g., Jack Henry and Associates, Inc. v. Datatreasury Corp.*, CBM2014-00056, July 10, 2014, Paper No. 17 at 6 ("Petitioner argues that the district court's interpretation should be adopted, but provides no persuasive analysis as to how the term is to be interpreted under the broadest reasonable interpretation standard, *which is different from the standard used by a district court*.") (emphasis added).

or her non-infringement position, because the infringement analysis is conducted by courts under a different claim construction standard – the proper interpretation of the claims. As a result, petitioners press far broader constructions than they would advocate in court, without any estoppel effect because of the different claim construction standards. *See, e.g., PPC Broadband, Inc. v. Corning Optical Communs. RF, LLC*, 2015-1361, 2015-1366, 2015-1368, 2015-1369, 2016 U.S. App. LEXIS 3022 (Fed. Cir. Feb. 22, 2016) ("Under the [PTO's] construction, there is no requirement of consistent or continuous contact through the post and the nut. Because the [PTO's] construction does not include this additional temporal limitation, it is broader than PPC Broadband's proposed construction. Thus, while the [PTO's] construction is not the correct construction under *Phillips*, it is the broadest reasonable interpretation of 'continuity member,' and because this is an IPR, under our binding precedent, we must uphold the [PTO's] construction of 'continuity member' and 'electrical continuity member.'"); *Versata Dev. Group, Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1328 (Fed. Cir. 2015) (in another post-grant review proceeding involving a covered business method patent, the PTO rejected the district court's construction in favor of a construction under the broadest reasonable interpretation, which resulted in a finding of unpatentability). Therefore, the patent owner receives the worst of both worlds: an artificially broad invalidity analysis in an IPR proceeding, where the patent may be exposed to much more prior art than it would be at the district court, and an infringement analysis in district court conducted under a narrower claim construction standard than that used to determine

the validity of the claim. These two adjudicatory processes, using different claim construction standards have clearly stacked the deck against patent owners.

Finally, Section 282(a) of the Patent Act provides a patent with a presumption of validity, and correspondingly, a defendant must prove invalidity by clear and convincing evidence in a court of law. *Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. 91 (2011). Patents, however, are not given the benefit of a presumption of validity in an IPR or the accompanying requirement that invalidity be proven by clear and convincing evidence.[9] Rather, in an IPR, a petitioner only needs to prove invalidity by a preponderance of the evidence.

Unlike examination, the adjudicative IPR proceeding provides for both expert declarations and deposition testimony. Accordingly, like district courts, the PTO has the evidence necessary to apply the proper interpretation to the claims in IPRs. Nonetheless, the PTO's regulation adopts the examination claim construction standard and directs the PTO to apply the broadest reasonable interpretation of claim language. 37 C.F.R. § 42.100(b). The application of the broadest reasonable interpretation in combination with the restrictions placed on a patent owner's right to amend the claims effectively ties the hands of patent owners, thus explaining the very high rate of invalidation in IPRs.[10]

Under current IPR regulations, a patent owner must file a motion to amend its claims, 37 C.F.R. §

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[9] 35 U.S.C. §§ 316(e); 326(e).

[10] *Supra* at 8.

42.121, and the Patent Owner bears the burden of proof to establish that it is entitled to the relief requested in the motion to amend. *See, e.g., Google Inc., et al. v. Micrografx, LLC*, IPR2014-00532, Order 20 at 3 (citing 37 C.F.R. § 42.20(c)). The absence of a *right* to amend claims means that patent owners have no ability to bring the PTO's broadest reasonable interpretation in line with the proper interpretation of the claims that properly reflects the scope of the invention. In other words, patent owners cannot amend their claims to reflect a narrower scope that aligns with the narrower construction that would apply in the district court litigation.[11] When the Patent Office applies the broadest reasonable interpretation to a patent's claims, it exposes the patent to attack from prior art that potentially would not have been relevant under a district court's narrower interpretation of the patent.

In effect, the PTO's regulation (Section 42.100(b)) creates a new substantive invalidity hurdle that patent owners must clear. To prevail in both an IPR and in district court litigation, the patent owner must satisfy the standards of Sections 102 and 103 both when its claims are construed pursuant to the proper interpretation of its claim language, *and when its claims are construed under the broadest reasonable interpretation.* Not only did the AIA create this new patentability hurdle, but it

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[11] Even if a patent owner could amend during an IPR, it would potentially give rise to intervening rights, which has the effect of eviscerating damages in district court litigation, even though the patent owner is seeking nothing more than the same claim construction that it advocates in the district court. *See, e.g., Marine Polymer Techs., Inc. v. HemCon, Inc.*, 672 F.3d 1350, 1361–62 (Fed. Cir. 2012).

has been applied retroactively to patents that issued prior to the effective date of the AIA.[12]

The PTO's regulation regarding claim construction in IPRs changes the settled scope of claims in an adjudicative process. Prior to the PTO's adoption of the regulation, patent owners understood that the issued claims in their patents would either (1) be given their proper interpretation in adjudication; or (2) be given the broadest reasonable interpretation during reexamination with a concurrent right to amend the claims to narrow that broader interpretation. Patent owners made investments based on this understanding, as described *infra* Section III.B. In the newly instituted IPR proceedings, a new and different interpretation is being given to the claims, without any effective recourse to amend the claims. Had patent owners been aware that their patent claims might subsequently be treated in this fashion, they could have taken precautionary measures by submitting more and narrower claims in their patent applications, in an attempt to eliminate the artificially broad interpretation used in post-issuance IPRs. The Federal Circuit has recognized that "[i]t is at best incongruous to apply a trial court procedural rule to the examination of claims in the PTO." *In re Etter*, 756 F.2d at 859. The converse holds true as well: it is at best incongruous to apply an examination procedural rule to a trial of patent claims.

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12 Greg Dolin & Irina D. Manta, *Taking Patents*, 72 WASH. & LEE L. REV. at 17-18.

II. THE TAKINGS CLAUSE APPLIES TO PATENTS AS PERSONAL PROPERTY.

The Takings Clause of the Fifth Amendment provides that "private property" shall not "be taken for public use, without just compensation." U.S. CONST. AMEND. V Both the Patent Act and this Court recognize that patents are personal property. *See, e.g.*, 35 U.S.C. § 261 (2012) ("[P]atents shall have the attributes of personal property."); *Festo Corp.*, 535 U. S. at 730 (A patent "is a property right").

Until recently, there was uncertainty in the law as to whether the Takings Clause applied to personal property, such as patents, as well as real property. *Horne v. Dep't of Agric.*, 135 S. Ct. 2419, 2426 (2015) (granting certiorari on this question). *Horne*, however, resolved the question unambiguously: "Nothing in the text or history of the Takings Clause, or our precedents, suggests that the rule is any different when it comes to appropriation of personal property. The Government has a categorical duty to pay just compensation when it takes your car, just as when it takes your home." *Id.*

In so deciding, the Court quoted a passage from *James v. Campbell*, 104 U.S. 356, 358 (1882) that specifically addressed patents:

> "[A patent] confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without

> compensation land which has been patented to a private purchaser."

Id. The only reasonable conclusion to draw from the Court's quotation of *James* in its opinion is that the Takings Clause applies equally to patents. *See also* Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents under the Takings Clause*, 87 B.U. L. REV. 689, 700-11 (2007) (discussing nineteenth-century case law in which courts applied the Takings Clause to patents). Left unanswered by the Court, however, are questions as to under what circumstances and how the Takings Clause applies to patents, as there are no cases to date that apply modern Takings Clause jurisprudence to patents. This Court's earlier Takings jurisprudence indicated that "repeal [of patent laws], however, can have no effect to impair the right of property then existing in a patentee or his assignee, according to the well-established principles of this court." *McClurg v. Kingsland*, 42 U.S. (1 How.) 202, 206, 11 L. Ed. 102 (1843) (citing *Soc'y for the Propagation of the Gospel in Foreign Parts v. New Haven*, 21 U.S. (8 Wheat.) 464 (1823) (which applied the same principle to real property rights)).

III. THE BROADEST REASONABLE INTERPRETATION IN POST-ISSUANCE PROCEEDINGS WITHOUT A RIGHT TO AMEND IS AN UNCONSTITUTIONAL TAKING.

A. A Physical Taking Has Occurred

When describing property rights associated with patents, an analogy to land is often drawn.

Such an analogy, as this Court has explained, is apt, because a "patent for an invention is as much property as a patent for land [and] [t]he right rests on the same foundation, and is surrounded and protected by the same sanctions." *Consol. Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96 (1876).

Like the boundaries of a physical parcel of land that are defined by metes and bounds, the boundaries of a patent are defined by its claims and their interpretation. *See* Christopher A. Cotropia, *Patent Claim Interpretation Methodologies and Their Claim Scope Paradigms*, 47 WM. & MARY L. REV. 49, 64-65 (2005); *In re Vamco Mach. & Tool, Inc.*, 752 F.2d 1564, 1577 n.5 (Fed. Cir. 1985) ("claims are not technical descriptions of the disclosed inventions but are legal documents like the descriptions of lands by metes and bounds in a deed which *define the area* conveyed but *do not describe the land*.") (emphasis in original). When the government invades a land owner's property by moving the boundaries, it constitutes a *per se* compensable taking, even if the invasion is minimal. *See Loretto*, 458 U.S. at 435 (explaining that a regulation that requires an owner to suffer a permanent physical invasion of her property—however minor—is a taking).

Similarly, the PTO's regulation, which adopts the broadest reasonable interpretation, qualifies as a *per se* physical taking under this Court's precedents. The regulation effects a change in the boundaries of personal property, a patent, by altering the scope of its claims. *McClurg* 42 U.S. at 206. The PTO granted the patent owner a property right with specified bounds: the bounds established by the proper interpretation of the words used, which will be applied

when the patent owner pursues its statutory remedy for infringement under 35 U.S.C. § 271. By applying the expansive broadest reasonable interpretation standard to post-issuance proceedings, the PTO unilaterally altered the bounds of that right to the detriment of the patent owner.

While the regulation artificially broadens the scope of a claim, a broader claim is just as—if not more—problematic than a narrower claim. Broader claims have a higher chance of reading on the prior art and therefore being found invalid. The application of the broadest reasonable interpretation is particularly pernicious because it effects a change in a claim's boundaries that more often than not results in a complete deprivation of private property, *i.e.*, the cancellation of patent claims to which a patent owner was entitled under pre-AIA standards. *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 350 (1971) (holding that once a patent claim is declared invalid it cannot be asserted against anyone else). As the facts of this case demonstrate, the application of the broader construction is merely a vehicle to invalidate claims.

In addition to a takings theory based on the adoption of a PTO regulation itself, a takings theory can be articulated by individual patent owners under the following scenario: (1) a patent issued prior to the effective date of the AIA, (2) after the PTO regulations go into effect, a post-grant review is filed, (3) the PTO applies the broadest reasonable interpretation, (4) the PTO invalidates at least one patent claim, and (5) the patent claim is or would have been determined to be valid under the proper litigation construction. *See, e.g., Versata Dev. Group, Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1313, 1328 (Fed. Cir.

2015) (explaining a jury found the patent-at-issue not invalid, infringed, and the Federal Circuit upheld those determinations, but in a subsequent post-grant review proceeding under the AIA called covered business method patent review, the PTO applied the broadest reasonable interpretation, rejected the district court's claim construction, and found all claims unpatentable under Section 101).

This Court held in *Loretto* that the government cannot change the boundaries of the property owner's rights without triggering the Just Compensation Clause of the Fifth Amendment. *See Loretto*, 458 U.S. at 435 (explaining that depriving the owner of a part of his property, *i.e.*, changing the boundaries of his property rights, works a taking); *Taking Patents* at 46-47 Simply put: the forced changes in the previously settled boundaries of the property constitute a *per se* taking.

B. A Regulatory Taking Has Occurred.

Even in cases where there is neither a physical invasion nor a complete deprivation of value, the *Penn Central* case ensures that property owners who do not suffer a physical taking or a total deprivation of value are not without a remedy. *Penn Central Transportation Co. v. New York City*, 438 U.S. 104 (1978). This Court provides three factors to consider in identifying a regulatory taking: "[1] the economic impact of the regulation, [2] its interference with reasonable investment-backed expectations, and [3] the character of the governmental action," including whether the taking was a physical taking or merely had the effect of a taking. *E. Enterprises v. Apfel*, 524 U.S. 498, 523-24 (1998) (plurality opinion) (quoting *Kaiser Aetna v. United States*, 444 U.S. 164 (1979)). As opposed to a *per se* taking, under *Penn*

Central, courts are required to engage in an "essentially ad hoc and fact intensive" balancing inquiry. *Penn Central*, 438 U.S. at 124.

Turning to the first factor enunciated in *E. Enterprises*, *i.e.*, the economic impact of the regulation, research conducted by some *amici* shows the economic impact of current IPR proceedings, including the application of the broadest reasonable interpretation, is quite severe: "the value of patents has dropped by two thirds since and because of the AIA, with a further drop of 10-15% expected in the next few years." *Taking Patents* at 64-65. IPRs impose challenges to licensing patents and patent owners have even faced threats of IPRs to induce them to settle cases or to lower potential licensing rates. *Id.* at 65. Even where some interest remains in personal property, a taking can occur. *Horne v. Dep't of Agric.*, 135 S. Ct. at 2426 (2015).

Second, with respect to reasonable investment-backed expectations, patent owners invested in prosecution to obtain patents, paid maintenance fees, and filed expensive patent infringement cases, with the expectation that the issued claims of patents would be interpreted under the then-existing standards. Before the implementation of the AIA, in 2010 alone the PTO collected approximately $2.068 billion in fees from companies and individuals. *See* United States Patent and Trademark Office, Performance and Accountability Report Fiscal Year 2010 at 54-55 (showing "fiscal year fee collections" for years 2006-2010, with maintenance fees for issued patents comprising 35.8% of the fees collected) available at http://www.uspto.gov/sites/default/files/about/stratplan/ar/USPTOFY2010PAR.pdf. This investment was made with the expectation that the bounds of patent

claims are established as of the issue date. Retroactively changing the fixed boundaries by applying the broadest reasonable interpretation to an adjudicatory proceeding unilaterally weakens the patent owner's rights.

Furthermore, patent owners in litigation rely on an interpretation of the patent consistent with that applied by a district court. Whereas the patentees carefully crafted their language and addressed it to a reasonable artisan, the Patent Office requires that claims be reviewed under a different standard—one that is contrary to these "expectations." The AIA-created procedures thus significantly interfere with patentees' "investment-backed expectations."

Lastly, it is true that even post-AIA, the value of some patents is not reduced to zero, and therefore (if viewed through the regulatory takings prism), the AIA-created mechanism is not a *per se* taking like the one in *Lucas v South Carolina Coastal Council*, 505 U.S. 1003, 1018 (1992). But courts have not insisted on a total loss of value to find a taking under *Penn Central*, instead requiring significant reduction in value as a result of the government's actions. *See, e.g., Yancey v. United States*, 915 F.2d 1534 (Fed. Cir. 1990) (holding that a 77% loss of the value of a flock of turkeys after a quarantine regulation was enacted was a compensable taking); *Cienega Gardens v. United States*, 331 F.3d 1319 (Fed. Cir. 2003) (ruling that a statutory amendment that voided the claimant's right to pre-pay a government mortgage was a compensable taking, simply because it was *possible* that a 96% diminution in return on investment would result).

The loss of value that the AIA visited on the patentees is not significantly matched by any bene-

fits that have accrued to the public as a result of the new law. The authors of the Act proclaimed that it would "provide[] more certainty, and reduce[] the cost associated with filing and litigating patents," 410 H.R. Rep. No. 112-98, pt. 1, at 42, or speed the resolution of invalidity claims. But the exact opposite has happened. *See* Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881 (2015). Thus, the "nature of the government's action" was not to broadly benefit the public, but to make it easier for some accused patent infringers to avoid having to bear the costs of their infringement. *See* Terry Ludlow, *Technology Patent Licensing Trends in 2015 and Beyond*, CORP COUNSEL, Apr. 17, 2015, http://www.law.com/sites/articles/2015/04/17/technology-patent-licensing-trends-in-2015-and-beyond/#ixzz3js6qPOfP ("Look for more holdout behavior from defendants as there is little incentive to settle early. Before making any settlement offers, patents will be thoroughly tested through IPR filings. ").

Under the *Penn Central* analysis, the PTO's regulation constitutes a regulatory taking.

IV. WHETHER OR NOT A TAKING CAN BE FOUND, THE DOCTRINE OF CONSTITUTIONAL AVOIDANCE COUNSELS STATUTORY CONSTRUCTION THAT AVOIDS A CONSTITUTIONAL ISSUE.

"It is a time-honored doctrine that statutes and regulations are first examined by a reviewing court to see if constitutional questions can be avoid-

ed." *Wyman v. James*, 400 U.S. 309, 345 n.7 (1971) (citing *Ashwander v. TVA*, 297 U.S. 288, 345-48 (1936) (Brandeis, J., concurring)). The premise of constitutional avoidance is that "Congress did not intend" any meaning of a statute or regulation "which raises serious constitutional doubts." *Clark v. Martinez*, 543 U.S. 371, 381 (2005). The doctrine of constitutional avoidance has been applied where "significant constitutional questions [are] raised by [an agency's] application of their regulations." *Solid Waste Agency v. United States Army Corps of Eng'rs*, 531 U.S. 159, 174 (2001).

Here, the statute implementing *inter partes* review is entirely silent on the claim construction standard to be used. *In re Cuozzo*, 793 F.3d at 1275. In fact, "[n]o section of the patent statute explicitly provides that the broadest reasonable interpretation standard shall or shall not be used in *any* PTO proceedings." *Id.* at 1276 (emphasis added). Nonetheless, because the statute's intent was to create an adjudicatory proceeding, a reasonable interpretation of the statute would require that the PTO implement a claim construction standard that is used in other adjudicatory proceedings.

Given the constitutional issues raised herein by the PTO's regulation, however, the latter should be adopted as the correct standard, if for no other reason than the application of the constitutional avoidance doctrine. In the proceedings below, the Federal Circuit upheld the PTO's broadest reasonable interpretation standard in part because it concluded that the PTO has rulemaking authority under the patent statute. *Id.* at 1278–79. Therefore, the court applied the *Chevron* test to the PTO's interpretation, and made no mention of constitutional avoid-

ance. *See id.* However, this Court has repeatedly held that the doctrine of constitutional avoidance applies even when the agency at issue has rulemaking authority: "Where an administrative interpretation of a statute invokes the other limits of Congress' power, we expect a clear indication that Congress intended that result." *Solid Waste Agency*, 531 U.S. at 172 (citing *Edward J. Debartolo Corp. v. Florida Gulf Coast Building & Construction Trades Council*, 485 U.S. 568, 575 (1988)). And that, "where an otherwise acceptable construction of a statute would raise serious constitutional problems, the Court will construe the statute to avoid such problems unless such construction is plainly contrary to the intent of Congress." *Debartolo*, 485 U.S. at 575.

In this case, Congress was silent as to the claim construction standard the PTO should apply in post-issuance proceedings. Therefore, an interpretation of the statute that requires the proper claim construction standard to be applied would not be "plainly contrary to the intent of Congress." Rather, applying the proper interpretation used in litigation—as opposed to the broadest reasonable interpretation standard previously used only as an expedient in *examination*—would be consistent with Congress's direction that "[t]he Act converts *inter partes* reexamination from an examinational to an adjudicative proceeding." H.R. Rep. No. 112–98, pt. 1, at 46.

Furthermore, as discussed herein, the broadest reasonable interpretation standard does raise significant constitutional problems. "[W]hen deciding which of two plausible statutory constructions to adopt, a court must consider the necessary consequences of its choice. If one of them would raise a

multitude of constitutional problems, the other should prevail." *Clark*, 543 U.S. at 380–81. Therefore, the only result consistent with this Court's precedent is to construe the litigation standard of claim interpretation to post-issuance proceedings, thereby obviating the need to address the constitutional questions herein.

CONCLUSION

For the foregoing reasons, the Federal Circuit's holding that the broadest reasonable interpretation applies to IPRs should be reversed.

Respectfully submitted.

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